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Zhaoping Liu
School of Hotel Administration, Cornell University, zl49@cornell.edu

Songshan Sam Huang
School of Management, University of South Australia, Sam.Huang@unisa.edu.au

Cathy Hsu
School of Hotel and Tourism Management, The Hong Kong Polytechnic University, Cathy.Hsu@inet.polyu.edu.uk

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Zhaoping (George) Liu*
School of Hotel Administration
Cornell University

Songshan (Sam) Huang
School of Management
University of South Australia

Cathy Hsu
School of Hotel and Tourism Management
The Hong Kong Polytechnic University

*Corresponding Author:
Address: G80 Statler Hall, Cornell University, Ithaca, NY 14853 USA
Email: ZL49@cornell.edu

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Abstract

Through interviews with 15 top executives of economy hotel chains in China, this study aims to discover how the patterns and effects of managerial ties differ among state-owned, private, and foreign firms. Results indicate that managers in firms of different ownership types prefer different network tie combinations and differ in the extent to which they can benefit from managerial ties. The study contributes to both entrepreneurship and social network theories by summarizing different patterns of managerial ties and exploring the rationales for the variance. It also provides empirical evidence for understanding the important roles played by managers' network ties in the entrepreneurial process. Entrepreneurs in the hospitality industry may be able to use the findings to help them select an optimal network tie mix and manage their network ties efficiently in the dynamic environment of a transitional economy.

Background of the research

New ventures face the liability of newness. As new organizations develop their new roles, they have to bear costs related to time, conflict, and temporary inefficiencies. The inability of new organizations to develop trust with strangers they heavily rely on and the lack of stable customer bases could be other reasons for the liability (Stinchcombe, 1965). Many new ventures address the liability of newness by building their networking capabilities, because networks can offer many benefits to new ventures (Johannisson, 2000). Some studies have discussed the importance of owner/managers' social networks in the entrepreneurial process (Hoang & Antoncic, 2003; Licht & Siegel, 2006; Thornton, 1999). Quite a few studies suggested that entrepreneurs benefit from their networks in identifying opportunities, acquiring resources, and gaining legitimacy (Hoang & Antoncic, 2003).

A relational tie is a linkage between two actors (Wasserman & Faust, 1994). Managerial ties, which are one specific type of relational ties, were defined as "executives' boundary-spanning activities and their associated interactions with external entities" (Geletkanycz & Hambrick, 1997, p. 654). Peng and Luo (2000) demonstrated a link between managerial ties and firm performance. Studies by others have also shown that certain characteristics of managerial network ties are related to the performance of entrepreneurial firms (Hoang & Antoncic, 2003; Johannisson, 2000). For example, some studies have found relationships between network strength (strong ties vs. weak ties) and firm performance (Bruderl & Preisendorfer, 1998; McEvily & Zaheer, 1999). Among the many definitions, Batjargal (2003) defined strong ties as ties with friends ("those with whom you have non-reciprocal and altruistic relationships," p. 545) and weak ties as ties with acquaintances ("those with whom you have reciprocal relationships," p. 545).

Conflicting results in previous studies as to whether strong ties are more important than weak ties created a central dilemma for network research (Bruderl & Preisendorfer, 1998; Granovetter, 1973; Jack, Dodd, & Anderson, 2008). Granovetter (1973) found that weak ties played more important roles in getting information. Because a weak tie often constitutes a local bridge to members of different small groups, it is more likely to provide new information. Bruderl and Preisendorfer (1998) drew a contradictory conclusion that support from strong ties is more important than that from weak ties in the context of entrepreneurship and small business formation. Since most strong ties are likely to be connected for each other and weak ties are not, the dilemma is highly related to the debate on whether networks with structural holes are better than those with closure (Burt, 1992; Coleman, 1988). Contingent factors that may affect the benefits of strong versus weak ties include the stage of the firm's development (Starr & Macmillan, 1990), the degree of innovation, (i.e., incremental versus radical), and the entrepreneurial processes (Elfring & Hulsink, 2003).

Another popular typology by Peng and Luo (2000) classified managerial ties as either business ties or political ties. Business ties are ties with executives of suppliers, buyers, and competitors. They may create competitive advantages for current firms.

> "Good relationship with suppliers may help a firm acquire quality materials, good services, and timely delivery. Similar ties with buyers may spur customer loyalty, sales volume, and reliable payment. Moreover, good relationships with executives at competitor firms may facilitate possible interfirm collaboration and implicit collusion, while minimizing uncertainties" (Peng & Luo, 2000, p.488).

Political ties are ties with political leaders in the government, officials in industrial bureaus, and officials in regulatory and supporting organizations. They are critical resources for firms in a transition economy such as China. Due to the considerable power of the Chinese government and the uncertain institutional environment, managerial ties with officials may be helpful in dealing with Chinese bureaucracy, reducing uncertainty, and improving the legitimacy of firms (Boist & Child, 1996).

In the transitional economy of China, firms of different ownership types (state-owned, private, and foreign) have been embedded within different historical, institutional, and economic factors and might select different competitive strategies (Peng, Tan, & Tong, 2004). Peng (2003) proposed that incumbent firms (mostly state- or collective-owned), entrepreneurial start-ups (mostly private), and foreign entrants use network strategies differently. Since firms of different ownership types may benefit differently from strong and weak ties or political and business ties, the managers' network patterns could be dissimilar. This study aimed to answer the following research questions:

1. How do managers' network patterns (strong vs. weak ties and political vs. business ties) differ among firms of different ownership types? Why?
2. How do managers' network ties affect entrepreneurial processes such as identifying opportunities, acquiring funding and human resources, and gaining legitimacy for state-owned enterprises (SOEs), private companies, and foreign firms?

Studies on network ties in the tourism and hospitality field are not rare (Pan, 2003; Anderson, 2009), but many of them focused on how hospitality firms use networks to support tourism destinations or improve customer services. For instance, Pan (2003) explored the key factors that affect networking between Australian inbound and Chinese outbound tour operators. Kandampully and Promsivapallop (2005) provided hospitality firms a conceptual framework for using vertical networks to match customer needs, services offered, and operational activities. Anderson (2009) analyzed how the Network of Sustainable Hotels of the Balearic Islands of Spain promoted ecotourism. von Friedrichs Grängsjö and Gummesson (2006) uncovered the mechanics of hotel networks in destination marketing in a Swedish town.

Many studies are directly related to managers' networking in the hotel industry. For example, based on their study in Portugal, Barros and Santos (2009) concluded that hotel managers' earnings are positively related to their social ties. Kalnins and Chung (2006) demonstrated that the possibility of failure for hotels owned by immigrant entrepreneur group members is lower than those belonging to nonmembers because immigrant owners can get help from other members by acquiring funding, information, and other resources. Ingram and Roberts (2000) showed that managers' friendships with competitors (one type of business tie) will improve hotel performance and cohesive friendship networks (strong ties) can improve performance further. Our study is distinguished from these because the study focused on how managers of economy hotel chains use network ties to obtain resources for firms and why they prefer certain types of ties. Our study also explored how managers' network patterns differ among firms of different ownership types.

Methodology

The study was designed to discover how and why managers' network patterns differ and how managerial ties affect firms during the entrepreneurial process. A qualitative approach is preferable when rich detail is essential (Eisenhardt, 1989; Yin, 2003) as in this research. The major objective of comparing firms of different ownership types calls for a multiple case design (Eisenhardt & Graebner, 2007).

<u>Sample</u>

The field research was conducted in the spring of 2009 in mainland China, which plays an increasingly important role in the world tourist market. China is also a transitional economy with an ever-changing institutional environment. Informal institutional constraints such as interpersonal ties may play more important roles in facilitating economic exchange where formal institutional constraints are weak (Peng & Luo, 2000). Traditionally, China is a strongly relationship-dependent business society (Chen, 2001). The Chinese term *guanxi*, used as rough equivalent to the English word *network*, is "one of the most popular terms used to describe social relations among the Chinese people, the functioning of Chinese society, and the operations of Chinese entrepreneurs and entrepreneurship" (Lin, 2001, p. 153).

This study tried to answer such questions as how entrepreneurs in the transitional economy use network ties to obtain firm resources. Therefore, only entrepreneurial firms were included in the population. Previous studies used a number of standards for defining entrepreneurial or new firms (Brush, 1995; Brush & Vanderwerf, 1992; Li & Zhang, 2007; Yli-Renko, Autio, & Sapienza, 2001; Zahra, Ireland, & Hitt, 2000). Among them, many used eight years as the cut-off age (Li & Zhang, 2007; McDougall, 1989; Zara, 1996; Zhang & Li, 2010). We followed these studies and defined entrepreneurial firms as firms that are eight years old or younger. Most of the fast-growing economy hotel chains had been founded in the eight years prior to the research and are still in their entrepreneurial period.

We focused on China's economy hotel sector, which had caught the attention of both domestic and international firms due to its strong growth (Dai & Shu, 2007; Zhang, Cai, & Kavanaugh, 2008). The traditional hotel statistics of the China National Tourism Administration (CNTA) have not included the economy hotel chains. However, the China Economy Hotel Survey, an official survey conducted by the China Hotel Association, showed that there were over 100 economy hotel chains with more than 2,000 properties in China at the end of 2007. The Chinese Economy Hotel Network, a commercial website, has an economy hotel chain list; based on which the theoretical sampling process started with two cases from each of the three ownership categories (state-owned, private, and foreign). More cases were added as long as significant new information could be collected from additional cases in a category. During the data collection process, we found that significant differences between foreign economy hotel chains belonging to international hotel groups (FI) and those started as new brands by Chinese in China using foreign investment (FC). Top executives of FC show similar behavior patterns as those of private firms because these FC managers do not have cultural and language problems that bother managers of FI. At the same time, the governance systems of FCs are more formal than those of private economy hotel chains. Therefore, we separate foreign firms into two categories.

A total of 20 top executives of economy hotel chains in Beijing, Shanghai, Hangzhou, Ningbo, and Guangzhou (all these cities have a large number of economy hotels from multiple chains) were invited to be interviewed. One of them is a president; six are chief executive officers (CEO); five are vice presidents (VP); seven are general managers (GM); and one is a department director. At least nine of them own company shares. Three managers, who did not want to be voice-recorded, were excluded from the data analysis. One public company collectively owned by state-owned enterprises (SOEs), foreign firms, and private investors could not be classified into one of the four categories, and another hotel chain had a history longer than eight years; thus neither was included in the analysis. This led to a final sample size of 15. The list of economy hotel chains included is provided in Table 1.

To achieve confidentiality and avoid disclosing private information, we identified the three managers of state-owned economy hotel chains as S1, S2, and S3; four managers of private economy hotel chains as P1, P2, P3, and P4; three managers of foreign economy hotel chains belonging to international hotel firms as FI1, FI2, and FI3; and five managers of foreign firms founded by Chinese using foreign investment as FC1, FC2, FC3, FC4, and FC5. These firms are listed in Table 1 in a different order.

Table 1 Fifteen economy hotel chains classified by ownership type

State-owned	Private	Foreign	
		International brand	**New brand started in China**
Dong Hang Star (16) * Garden Inn (24) Shindom (25)	Jialihua Guest House (6) Nanyuan Inn (26) Piao Home Inn (9) Yart Inn (6)	Best Value Inn (7) Holiday Inn Express (22) Super 8 (91)	7 days Inn (300) Green Tree Inn (140) Orange Hotel (14) Pod Inn (4) Super 169 Inn (8)

*: number of operating hotels belonging to the hotel chain by the end of 2008.

Data collection and analysis

Data were collected from multiple sources. Before beginning the field research, we collected background information on the managers and the economy hotel chains through research articles, industry reports, and hotel websites. The key part of the data collection was an in-depth interview with each manager under the direction of an interview guide. The first draft of the interview guide was written by one author and then modified after the three authors met in person before the field trip. After the first interview conducted by two on-site researchers, further modifications were made, such as switching the order of a few questions and changing the wording of several others. The questions were written in English and then translated into Chinese. The Chinese version was used for Chinese interviewees; the English version was used for international informants who did not speak Chinese. The following are some sample interview questions:

1. Name a person who played important roles in the processes of identifying opportunities, acquiring funding/key human resources, and gaining legitimacy.
2. Describe in detail how each network tie supported you during the entrepreneurial process.

3. Which ones are more important, strong ties or weak ties? Why? Give some examples to support your answer.
4. Any advantages/disadvantages over firms of different ownership types in networking?

We accessed informants through several channels. We were introduced to the majority (eight) through our network ties in CNTA and the China Hotel Association, one through an alumnus working in an international hotel chain, and two through the CEO of the China Economy Hotel Network. We contacted the others (four) directly. We started our first interview in Beijing on April 3, 2009, and finished the last one on April 24, 2009, in Shanghai. The lengths of the 15 interviews were between 42 minutes and 80 minutes, the majority being around 60 minutes. The interviews were voice-recorded and then transcribed. Preliminary data analysis was conducted simultaneously with data collection.

The first version of the transcription was completed by a research assistant. A second assistant was hired to work on English files when some inaccuracies were found in the original transcripts. One author went over the voice files twice to finalize the transcripts. The authors who conducted the field research coded the transcripts independently, directed by a coding guidebook composed by the author of the interview guide. Cross-checking of two transcripts gave a consistent rate of over 80%.

The embedded multiple case design enabled multiple-level comparisons of the cases. First, we undertook within-case analysis of how each informant used network ties during the entrepreneurial process. Next, cases in the same category were compared to discover common network patterns for each ownership type. Finally, comparing firms of different ownership types provided further information for answering the research questions.

Results and discussion

<u>The importance of managerial ties during entrepreneurial processes</u>

Managerial ties played important roles during the entrepreneurial process. Together the 15 interviewees mentioned 68 managerial ties that provided funding, referred key human capital, offered important knowledge, or brought legitimacy to their firms. Examples of managerial ties' positive impacts during entrepreneurial processes could be found for firms of all four ownership types.

Some managers identified opportunities and obtained knowledge through network ties. For example, FI1 first realized the great potential of economy hotels in China when he was chatting with a former classmate, an owner of economy hotels. S3 realized the bright future of the economy hotel segment when meeting with a very close friend who is a professor of a hotel school.

Many top executives received funding directly from network ties. When P1 was developing his first hotel, he called a friend four times and received ¥300,000 to purchase TVs, air conditioners, and furniture after he had exhausted other funding channels. The leading investor of FC1's hotel chain was a business partner who had been involved in an acquisition of FC1's previous venture.

A couple of economy hotel chains gained legitimacy through their managers' network ties. P2 spread the name of his newly founded economy hotel chain by participating in a conference co-sponsored by the government and a hotel association. A business tie formed many years before ensured his participation. FI1 received much useful advice from a hotel journal editor who wrote many articles introducing FI1's economy hotel brand.

Almost every interviewee told at least one story about either employing friends/acquaintances or hiring through referrals from network ties. For example, two of FC5's essential assistants are his former colleagues. One of them is in charge of operations and the other is head of the marketing department. Many informants explained that hiring friends/acquaintances or hiring through referrals is a tradition in the hotel industry, especially for mid- to high-level positions. The reason is that people hired this way are more trustworthy and reliable than those acquired through public hiring.

Patterns of managerial ties among firms of different ownership types

- Strong ties vs. weak ties

As mentioned before, one theme of the research was to explore the comparative importance of strong managerial ties versus weak ones for firms of different ownership types. The study showed a clear distinction among the different categories.

Two general managers of SOEs favored strong ties over weak ties. S1 suggested that the mutual trust between friends is the principal advantage of strong ties. To be good friends, actors on both sides of the tie must share common grounds and have motivation to strengthen the relationship. When one asks a friend for a favor, one is fairly sure that the person will do it as soon as possible. Nevertheless, some relationships with acquaintances are not as reliable as those with friends. In a complicated and ever-changing environment, the possibility of being cheated by an acquaintance is high. S2 stressed that the longer relationships and more frequent contacts with friends created opportunities to acquire knowledge through strong ties. When S2 first took his current position as a general manager, many new ideas on corporate strategy were inspired by discussion with a friend who had been a consultant for his previous company. This finding is consistent with that of previous studies that strong ties tend to disseminate fine-grained knowledge (Uzzi, 1997).

All top executives of foreign economy hotel brands either preferred weak ties or indicated that weak ties were as important as strong ties. FI3 indicated that a large proportion of his acquaintances was in the hotel industry and knew the business. As a result, the possibility of making deals with them was higher than with friends having limited knowledge of the hotel business. In addition, he had no obligation to accept a project suggested by an acquaintance, but had to make extra effort to reject a non-feasible project referred by a friend in order to maintain the close relationship. A possible reason not mentioned by the informants is that many foreign managers' strong ties are in their homeland and are not helpful in developing business in the new territory of China.

Executives of private firms and foreign firms started by Chinese with foreign investment did not show any pattern in choosing between strong and weak ties. When answering this question, FC5 and P3 preferred strong ties; FC4 and P2 preferred weak ties; FC1 and P4 thought both strong and weak ties were important; and FC3 and P1 believed that neither was important.

- Political ties vs. business ties

When comparing political ties and business ties, patterns became even more apparent. Managers of SOEs preferred political ties, but those of other ownership types either preferred business ties or thought business ties were at least as important as political ties.

All three GMs of SOEs insisted that their companies could not survive without support from political ties. S1 said that a government official identified the economy hotel as a business opportunity and formed the economy hotel chain. With the official's support, funding was provided to refurbish some state-owned guesthouses and market them under one brand. S3 provided similar information and indicated that the major funding source of the chain was from the government. S1 gave another reason for the positive effects of political ties. He successfully signed leasing contracts with two SOEs that had originally rejected him after he contacted two friends. One friend was a classmate of his at the Communist Party School; the other was in the same regional group when participating in the local people's congress. For the managers of SOEs, leasing properties to other SOEs is a safe and politically correct deal since the managers do not need to worry about bearing the charge of losing public assets.

Most of the managers of non-SOEs favored business ties, because ties with consumers, suppliers, and competitors can directly reduce costs, increase revenue, or improve competitiveness. FC2 believed that, as long as one puts customers as the primary stakeholder, one's firm would be on the right track. FI1 suggested that ties with customers and franchisees were more important than political ties even though his primary responsibility in the firm was to maintain governmental relationships.

Some top executives thought that business ties were at least as important as political ties. P2 clarified that political ties ensured the opening of an economy hotel (in China, a hotel must get permission and certificates from multiple government offices before opening) while business ties brought good performance. FC5 had a very similar opinion and thought that political ties were more important before the opening of the hotel and business ties were more important thereafter. These managers preferred business ties because of the lower costs of maintaining them. Most business ties are built upon mutual interests and do not require much effort to maintain. However, political ties between managers and government officials are unbalanced, with dominant power located on the officials' side. Many informants indicated that dinner treats and gift-giving were requisites for maintaining political ties. Additional costs are incurred if new officials are assigned to lead the government departments related to the hotel business. Firms have to start from scratch and spend extra money and time to rebuild the relationship in order to maintain government support.

<u>The extent to which managerial ties affect firms of different ownership types</u>

Despite the fact that top executives from firms of all ownership types valued managerial ties, the extent to which firms can benefit from such ties differs. The interviewees commonly accepted the idea that private firms benefit the most from managerial ties, foreign firms benefit the least, and SOEs were somewhere in between.

Private firms can obtain more benefits from managerial ties than other firms because of their flexible governance system. Both P3 and P4 indicated that private firms faced fewer restrictions in spending money on networking. S2 also listed the flexible system as the major reason that managers of private firms gained higher returns from managerial ties because they were free to use financial resources to build relationships, while he could not.

The two most frequently mentioned reasons for the disadvantage of foreign firms in networking are culture barriers and language, especially for foreign executives working for international hotel chains. When FI3 first came to China with 10 contracts in his hand, he thought five of them would be signed by the end of his two-week business trip because he always heard “yes” during business negotiations, but that did not happen. He finally realized that “yes” could mean different things in China: “Yes, I hear you”; “Yes, I will think about it”; or “Yes, I will bring it to my boss.” As he said, “*After dinner, lunch, lunch, dinner, cheer up, have a cigarette, another lunch, another dinner, then, you get a contract.*”

Restricted by rigid financial rules, managers of SOEs cannot explore the value of network ties as much as those in private firms. However, they do not have language and culture problems and are at an advantage over managers in foreign firms.

Institutional theory seems to be the most appropriate perspective from which to address the different effects of managers’ networks on domestic and foreign firms in a transitional economy (Boisot & Child, 1996; Luo, 2003). The theory indicates that “institutions are composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life” (Scott, 2001, p. 48). The different cultural backgrounds of top executives may affect their use of network ties and the subsequent effects such ties bring.

The different effects of managerial network ties of SOEs and private firms could be caused by the principal-agent dilemma. Agency theory indicates that a conflict of interests between principal and agent may bring company governance problems (Mahoney, 2005). Because private owners of economy hotels can pocket residual income, they are more highly motivated to spend resources on networking than are state-owned firms (Peng, 2000). Li and Zhang (2007) indicated that managers of SOEs may spend much time on networks that can secure their careers (to their own interests), not on those ties that will improve firm performance (to owners’ interests). In this study, a CEO who owns company shares of a private firm spent a lot of time networking with top executives of local banks in order to obtain bank loans.

Conclusion

The current study showed the effectiveness of managerial ties during entrepreneurial processes in the transitional economy of China. Managers in firms of different ownership types preferred different tie combinations: those in SOEs preferred strong and political ties, those in private and Chinese-founded foreign firms preferred business ties, and those in international hotel chains preferred weak and business ties. Private firms did benefit the most from managerial ties, while foreign firms benefited the least.

This study contributes to both entrepreneurship and social network theories by summarizing different patterns of managerial ties among SOEs, private companies, and foreign firms and probing the rationales for the variance. It also provides empirical evidence for understanding the effects of managers’ network ties during entrepreneurial processes in a transitional economy. Top executives in the hospitality industry can use findings from this study to help them select an optimal network mix and manage their network ties efficiently in a dynamic environment.

Given the qualitative design of the study, further quantitative studies are needed to test whether the differences among these ownership types are statistically significant. In addition to analyzing the strengths and types of managerial ties, exploring other dimensions of network ties such as diversity may add valuable information to this topic.

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